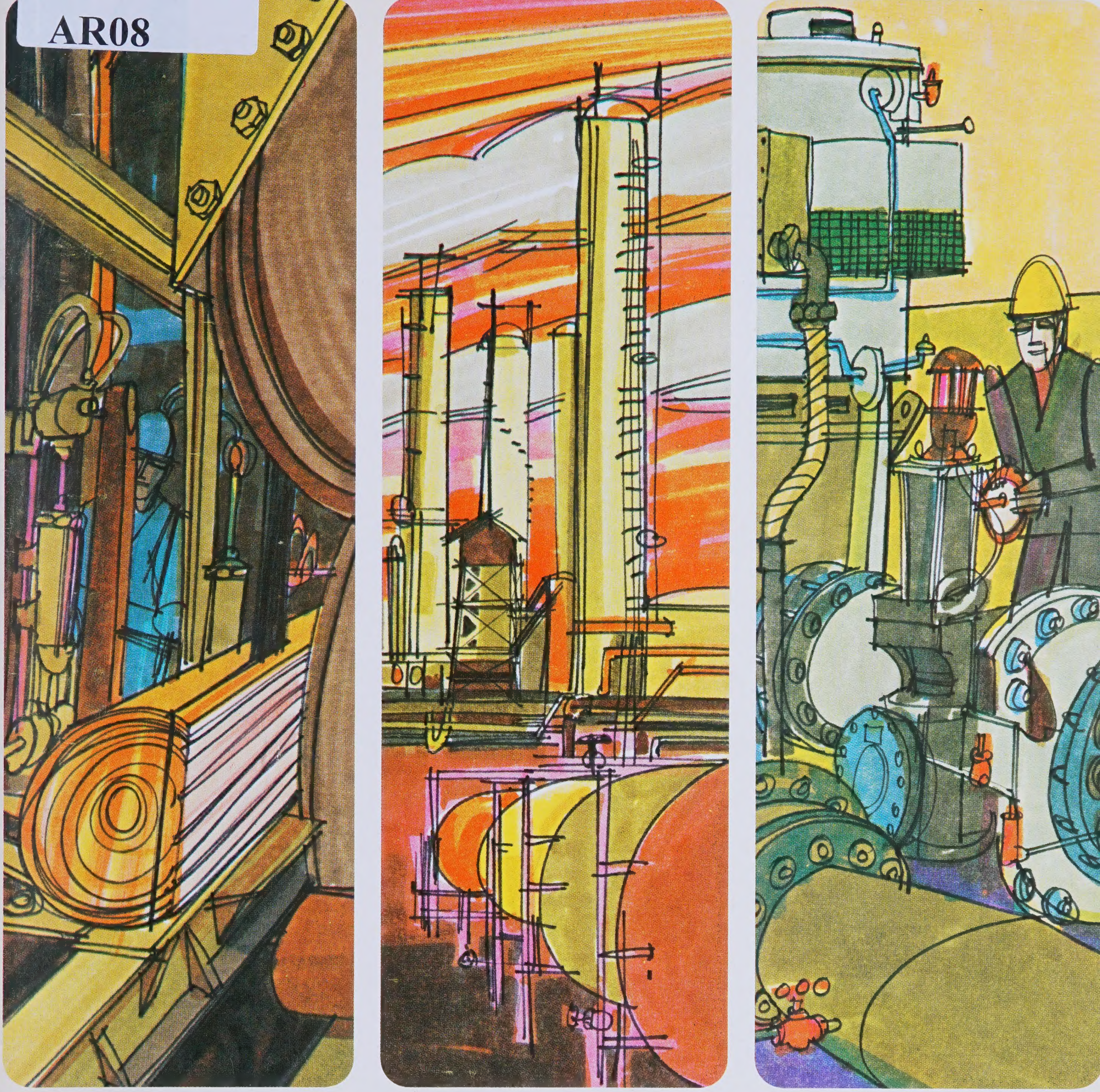


ROBERT MORSE CORPORATION LIMITED

ANNUAL REPORT 1968

COVER

The scenes reproduced on the front cover depict some interesting and colourful applications of equipment manufactured by Robert Morse Corporation and subsidiary companies.

At left is the interior of a sawmill showing a log being converted into lumber and chips with Trojan sawmill equipment manufactured by Galbraith & Sulley Limited in Vancouver, B.C.

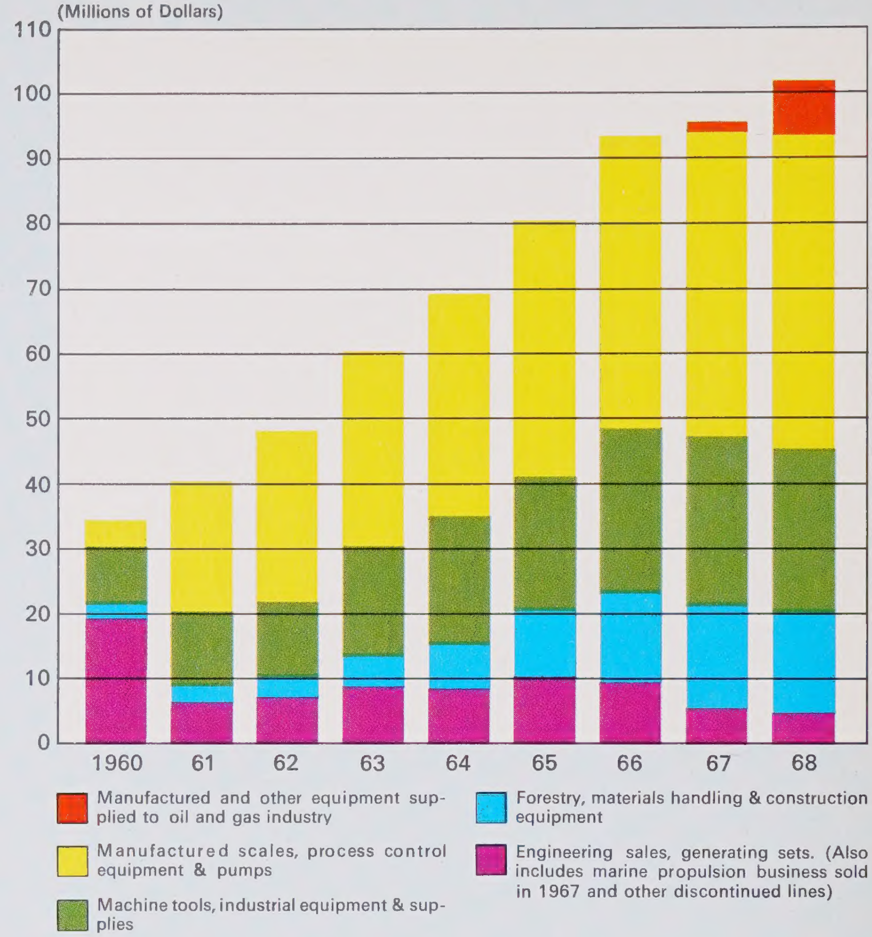
The centre scene portrays a typical western Canada gas processing plant with vertical pressure vessels and tanks fabricated by Canadian Equipment Sales & Service Co. Ltd.

On the right is a large Johnston vertical turbine pump of the type used in major land irrigation projects.

CONTENTS

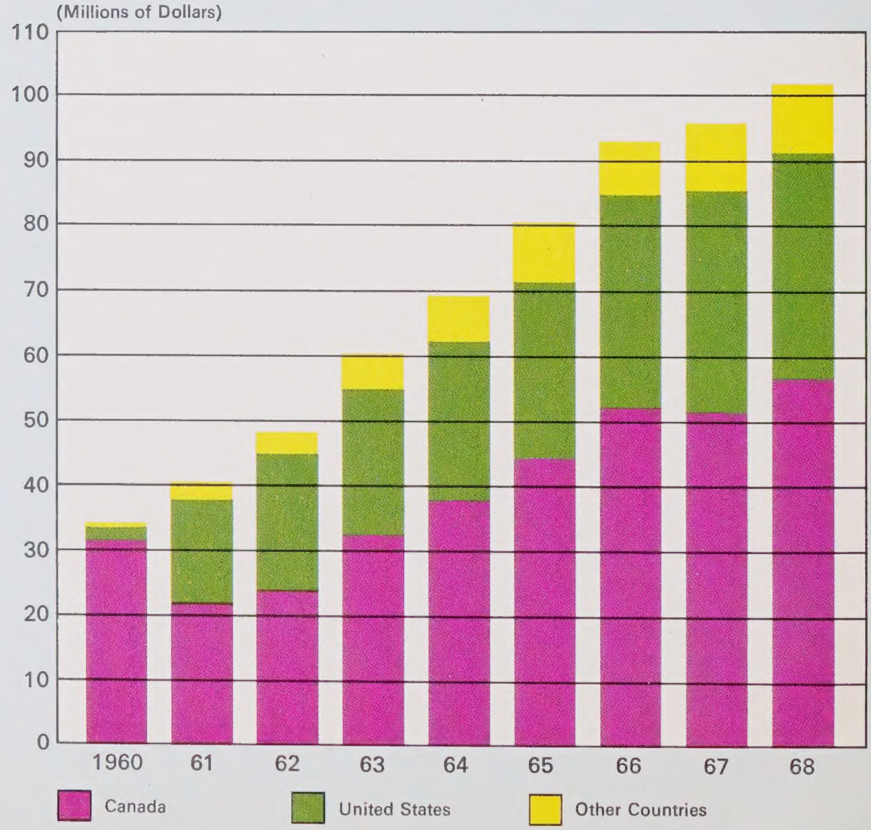
NET SALES BY PRODUCT GROUP

(Millions of Dollars)



NET SALES BY PRINCIPAL MARKETS

(Millions of Dollars)



ROBERT MORSE
CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

SUMMARY	1968	1967	% Change
Orders Booked	**$108,133,000***	$100,919,000	+ 7.1
Net Sales	**101,960,010**	95,574,412	+ 6.7
Backlog	**31,875,000**	25,702,000	+24.0
Income before Taxes and Extraordinary Items	**2,890,028**	3,209,411	−10.0
Income Taxes	**1,522,325**	1,396,328	+ 9.0
Income before Extraordinary Items	**1,367,703**	1,813,083	−24.6
Extraordinary Items	**699,884**	619,611	+13.0
Net Income	**2,067,587**	2,432,694	−15.0
Earnings per Share:			
Before Extraordinary Items			
Class A	**1.18**	1.87	
Class B	**1.08**	1.77	
After Extraordinary Items			
Class A	**2.01**	2.64	
Class B	**1.91**	2.54	
Depreciation	**933,815**	735,777	+26.9
Working Capital	**17,180,421**	19,729,770	−12.9
Total Assets	**61,225,576**	52,148,213	+17.4
Shareholders' Equity	**19,983,252**	19,207,785	+ 4.0

*Includes $2,438,000 of orders on hand on acquisition of CESSCO.

TO OUR SHAREHOLDERS:

The year 1968 produced another milestone in the Company's growth, as consolidated sales exceeded $100 million for the first time in our 70-year history. Assisted by an acquisition and upturn in business in the second half, sales set a record for the eighth consecutive year, reaching $102 million, as compared to $95.6 million in 1967. Order bookings in the last half were 30% ahead of the same period of 1967, and year-end backlog reached the record level of $31.9 million as compared to $25.7 million in the previous year.

Through the first half of 1968 operating income was still affected by the running-in costs of the new Johnston Pump plant, the disposition of our large marine engine business, and reduced demand for capital goods in Canada. The effect of these abnormal factors was progressively eliminated during the second half of the year, however, and an important acquisition at mid-year also contributed to an upturn in earnings. Operating profit increased from 9¢ per A share in the first half of the year to $1.09 in the second half.

Net income for the full year amounted to $2,068,000 as compared to $2,433,000 in 1967. After provision for an increased amount of preferred dividends, earnings were $2.01 and $1.91 per Class A and B share, respectively, of which 83¢ resulted from extraordinary items. This compares with $2.64 and $2.54 in 1967, with 77¢ from extraordinary items. The surtax on income of our U.S. subsidiaries reduced 1968 earnings by approximately 12¢ per share.

The extraordinary items included a gain from the sale of the remaining portion of the old Pasadena plant of Johnston Pump Company amounting to $375,000 after provision of $358,000 for deferred income tax, and a further gain of $325,000 from the sale of our marine propulsion business.

A highlight of 1968 was the acquisition in May of Canadian Equipment Sales & Service Co. Ltd. (Cessco) of Edmonton, Alberta. A successful, well established Company, Cessco manufactures and supplies equipment for the oil and gas industry across Canada. From the standpoint of size, profitability, sound liquid condition, and growth potential, Cessco makes an ideal addition to our Company. We consider this an excellent example of compatible diversification, and our acquisition program continues to seek further beneficial additions in appropriate new and existing markets.

Our U.S. subsidiaries, Howe Richardson Scale and Johnston Pump, are each among the two or three leaders in their respective fields, and in some segments of their business rank first or second.

Howe Richardson has a bright future based on the development of increasingly sophisticated products necessitated by the trend toward industrial automation and their increasing integration into computerized data systems.

The strong continuing growth projected for Johnston Pump is based on expanding programs for water pollution control, flood control, municipal and suburban requirements, as well as the traditional domestic and foreign markets for irrigation, all types of industrial applications, including electric utilities, petroleum and process industries.

In Canada, Cessco is performing well, and we look for continuing strong contributions from this latest acquisition. The program of reorganizing our Canadian distribution business is progressing well, with special emphasis being given to customer service in all divisions. The program includes new branches at Kamloops and Cranbrook, B.C., Kitchener and London, Ontario, Grande Prairie, Alberta, Stellarton, N.S. and New Richmond, Quebec. Sales volume is showing a very satisfactory upward trend as a result both of our management steps and a general economic upturn. The Forestry Equipment Division, augmented by the Galbraith & Sulley acquisition in 1967, is developing especially well and contributing strongly to sales growth.

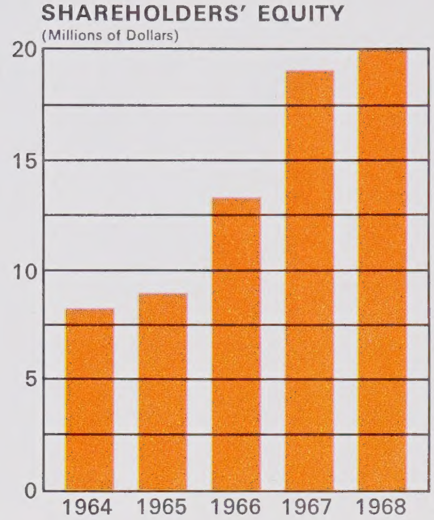
These various positive factors and trends all point in the direction of an extended period of growth in the Company's operations to further record levels with an increasingly favourable profit performance.

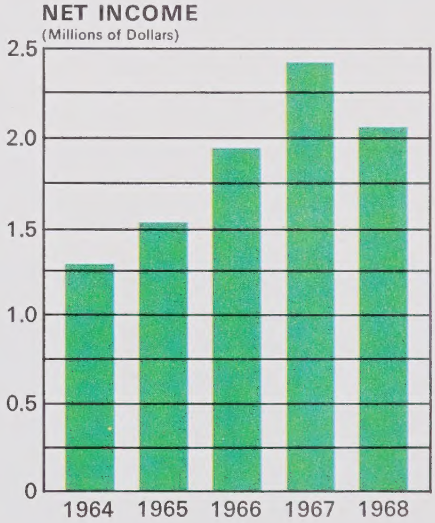
We are deeply appreciative of the fine contributions and loyalty of our 3400 employees in eight countries whose support is invaluable to our continuing progress.

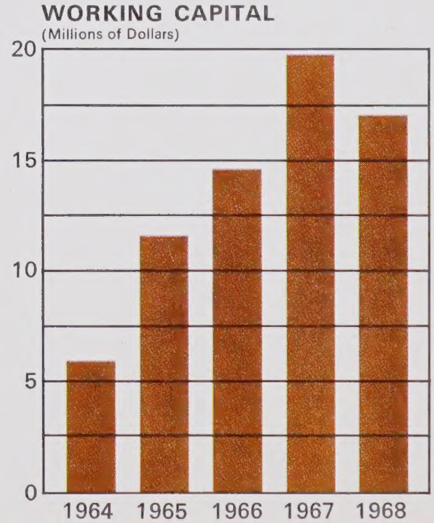
On behalf of the Board of Directors.

President and Chief Executive Officer

March 10, 1969







HOWE RICHARDSON SCALE COMPANY

WALTER M. YOUNG — President and General Manager

Orders booked by the Howe Richardson Scale Company in 1968 were at an all time high, exceeding the 1967 figures by approximately fifteen per cent. Substantial gains were made in the areas of automated weighing machinery, electronic proportioning, computer-controlled weighing systems, packaging systems, continuous weighing scales and checkweighing systems. As a leading supplier of automated weighing machinery, Howe Richardson is in an excellent position to take full advantage of the industrial growth riding the crest of automation. The Company is also penetrating more deeply the new and existing industrial markets where scales, electronic and material handling equipment are used for weighing and controlling products ranging from tiny packages to items weighing hundreds of tons. Installation of a new 10,000 square foot panel and wiring facility in the Rutland, Vermont plant, together with existing facilities at Clifton and Minneapolis, provide Howe Richardson with the broadest panel and wiring capabilities in the industry. With a strong rise of orders in the last quarter, and an excellent backlog at the end of the year, sales are expected to continue at a brisk pace through 1969.

Canadian Scale Division

FRED J. BENOIT — General Manager

Total shipments and earnings of the Canadian Scale Division were slightly lower than last year. A larger proportion of orders received required lengthy engineering and design input, and several are programmed for shipment early in 1969. Among the major orders were specially designed tank scales with a gross weighing capacity of 480,000 lb supplied to a major Quebec based distillery. With a strong backlog, continued improvement is anticipated throughout 1969.

Howe Richardson Scale Co. Limited, England.

T. ALAN SHORE — Managing Director

The volume of standard products increased during the year and total sales for 1968 equalled the record figure of the previous year. Prospects for continued growth on both home and export fronts are favourable for 1969.

Richardson Scale Company (France) S.A.

ALPHONSE DINGEMANS — President and Managing Director

Despite various difficulties hampering the French economy in 1968, sales of this subsidiary maintained the level of previous years.

Howe Richardson Scale Co. (Pty.) Limited, Australia.

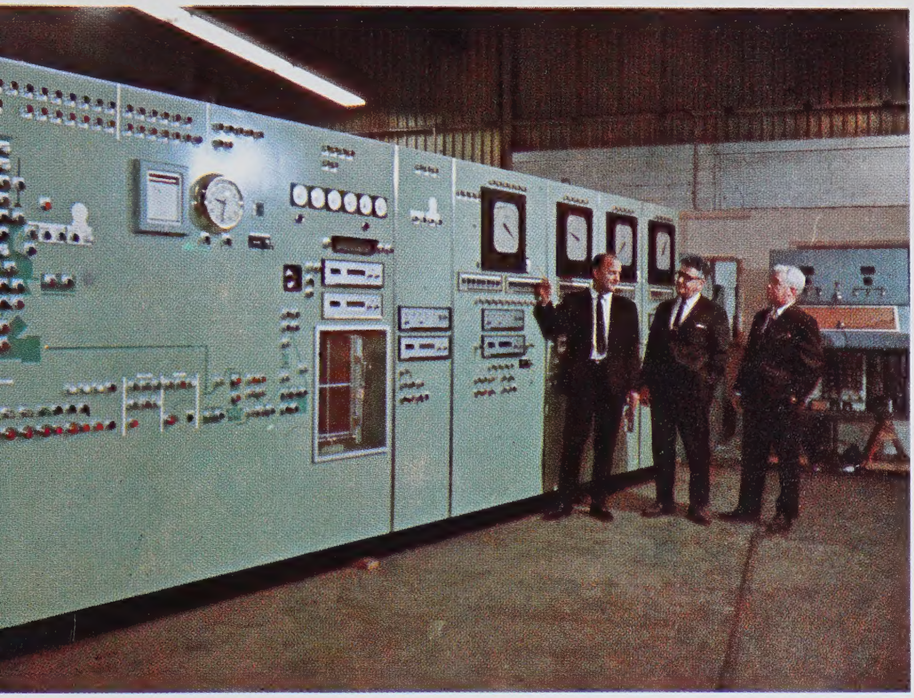
JOHN A. UHRIG — Managing Director

The earnings of this subsidiary showed excellent improvement in 1968, particularly in the area of profit contribution. Gains were made in the conveyor weighing field and also in the supply of bulk handling equipment to the rapidly growing fertilizer industry.

Howe Richardson Scale (Africa) (Pty.) Limited, South Africa.

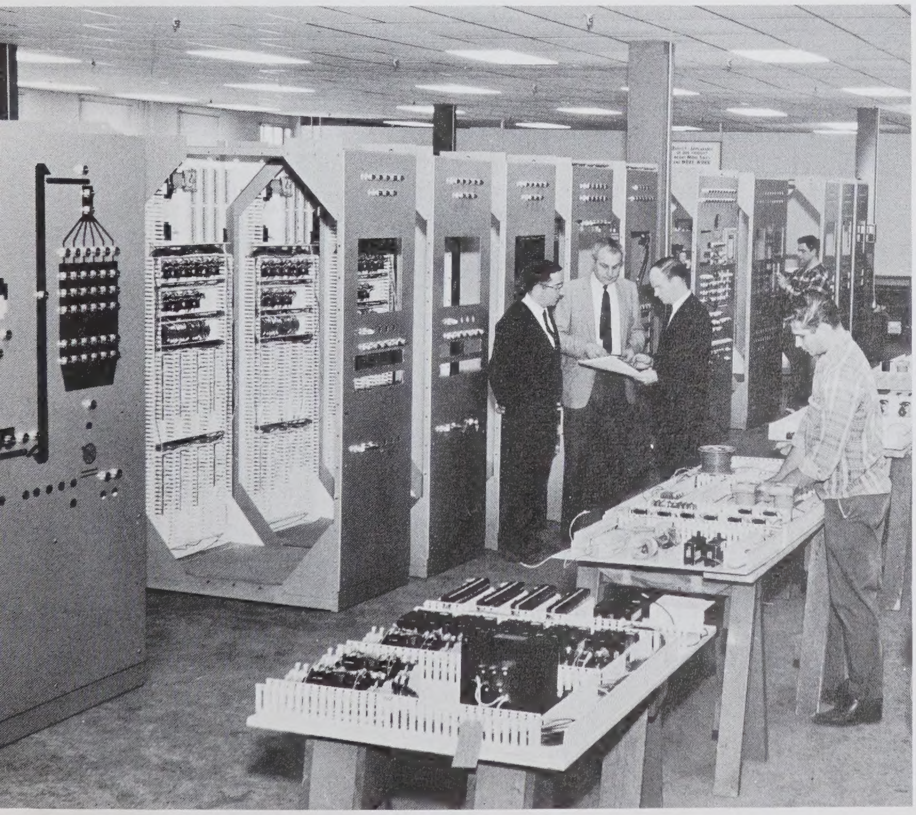
GEORGE OLIVER — Managing Director

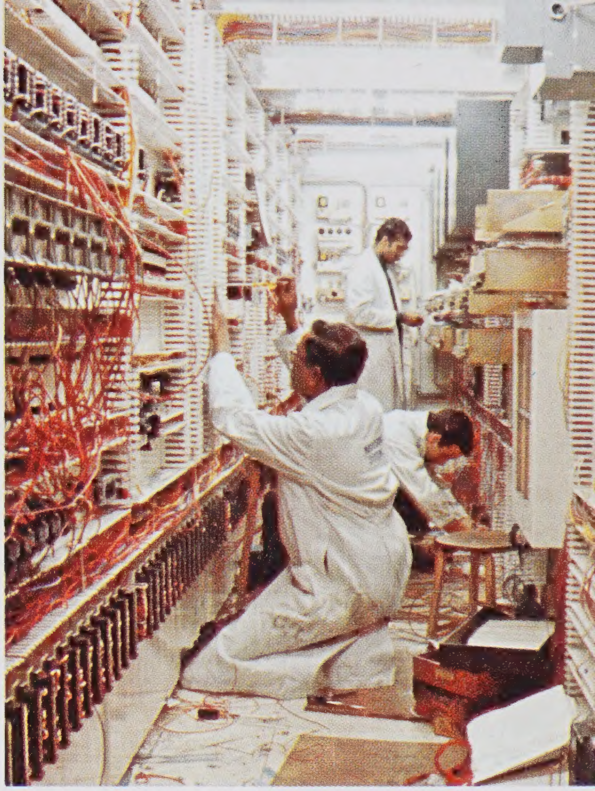
A generally slow year for the South African economy adversely affected the performance of this subsidiary.



This control panel is the largest manufactured to date by the Canadian Scale Division's Montreal plant. It will be used for proportioning and batching ingredients for the manufacture of tires at a major rubber plant in Kitchener, Ontario.

Pictured here is a portion of the recently expanded and renovated wiring shop at the Rutland, Vermont plant. Part of this 10,000 square foot facility is used for the assembly of control panels for proportioning materials by weight.





Above is the interior of the control panel shown at left. More than ten miles of wiring is used in the assembly.

This automatic bag placer is a new addition to Howe Richardson's line of high speed packaging equipment. Up to 20 bags per minute are automatically placed and filled.

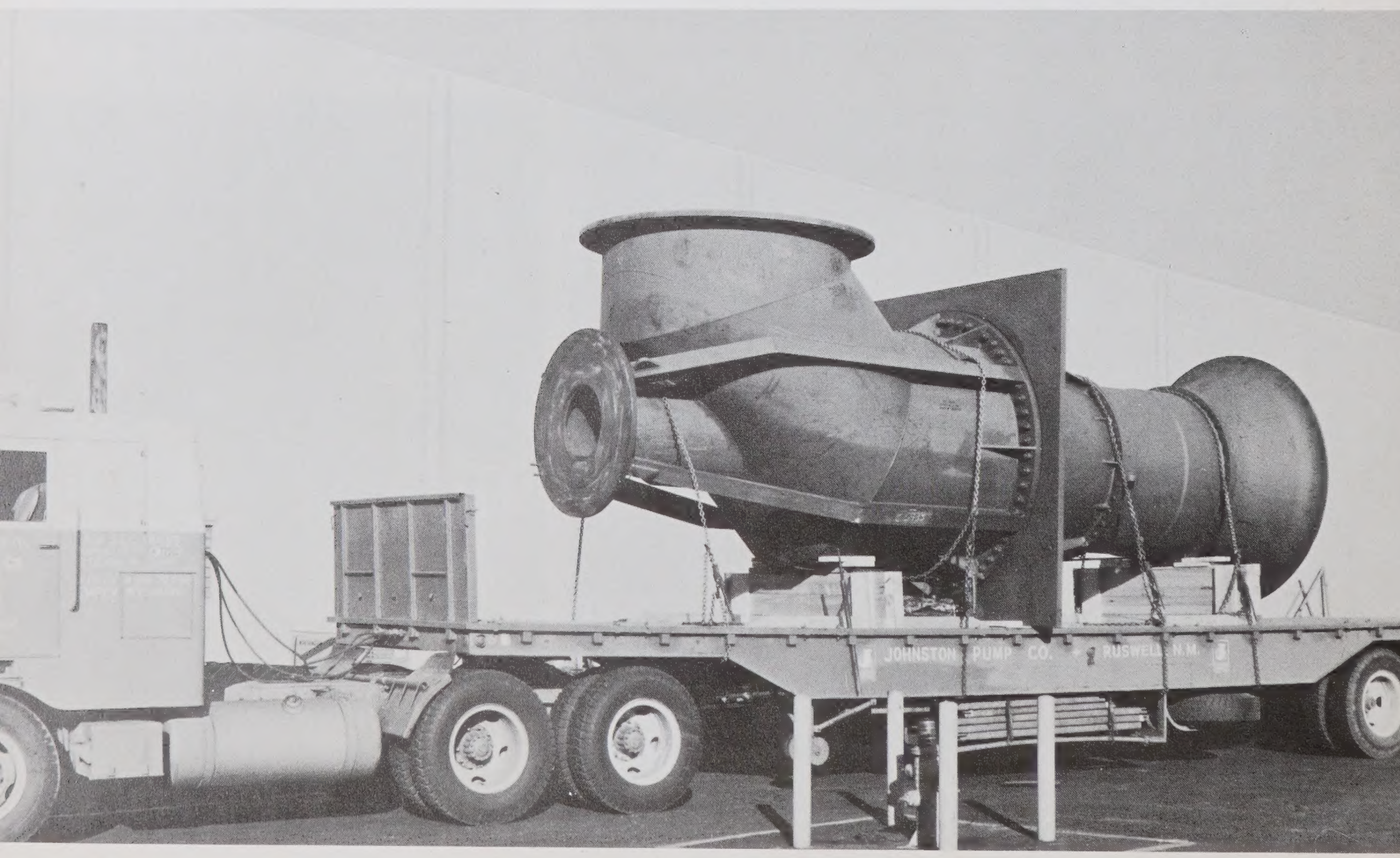
JOHNSTON PUMP COMPANY

L. ALLAN WEOM — President and General Manager

Sales of Johnston Pump Company again established a record in 1968, continuing the unbroken trend of the past several years. The level of earnings were moderately affected in the first part of the year by final running-in costs following the move to the new plant at Glendora in 1967, but for the full year net profit achieved the second highest level in the Company's history.

The expanded manufacturing and test facilities of the Glendora plant made it possible to fulfill a number of major-sized orders. A contract with the City of Abilene, Texas, for five 64 inch turbine pumps, largest in the line to date, is one of the biggest orders ever booked by the Company. Other significant orders included a two-stage 48 inch 1500 HP turbine pump for a Washington, D.C., suburban water system, two more two-stage 50 inch 2500 HP

The 60 inch propeller pump shown here is the largest ever shipped fully assembled by Johnston Pump. The 26 foot long unit will be used in a New Orleans drainage control project and has a capacity of 140,000 gallons per minute.



Aerial view of the modern 116,000 square foot manufacturing plant and headquarters at Glendora, California.

These three Johnston pumps are part of the Belridge Water Storage District providing irrigation for the west side of San Joaquin Valley, California. This station has a total capacity of 122,000 gallons per minute.

mixed flow pumps for the Georgia Power Company, and five three-stage 36 inch 1250 HP turbine pumps for the City of Akron, Ohio.

Research and development projects were expanded at an accelerated rate to bring out new improved designs of both turbine and mixed flow pumps for inclusion in the line late this year and in 1970. A site has been acquired at West Palm Beach, Florida, for a new branch to serve this prime market area.

With order bookings running at a high level, the year 1969 presents opportunities for continuing growth in sales and profitability.

JOHNSTON HOWE DE MEXICO S.A. DE C.V.

SALVADOR MADERO JR.—Executive Vice President and General Manager

Significant improvement was made by the Johnston Howe de Mexico pump and scale operation in 1968, largely in pump sales. Plans are being laid for expansion of production and office facilities in 1969 and for the introduction of submersible pumps which will make Johnston Howe de Mexico the first pump manufacturer in Mexico to offer this product line.

CANADIAN EQUIPMENT SALES & SERVICE CO. LTD.

W. SUTER — President and Managing Director

Canadian Equipment Sales & Service Co. Ltd., widely known as Cessco, became the newest member of the Robert Morse Corporation group in May, 1968. With headquarters in Edmonton, Alberta, Cessco is a leading manufacturer of equipment and supplier of diversified services to the oil, gas and related industries across Canada. The Company has an excellent growth record, and since acquisition has fully lived up to expectations with another highly successful year in all phases of operation.

Cessco is well-established and operates in three Divisions. The Manufacturing Division custom produces pressure vessels, tanks and specialized equipment of many types, including asphalt and concrete batching plants, chemical plant and refinery equipment. In the past year this Division processed as many as seventy-four vessels at one time with the largest single unit weighing in excess of 150 tons.

The Production Equipment Division is a major supplier of oil and gas field equipment and offers complete design, engineering and

(*continued on page 17*)

Welded vessels and machined parts must be stress relieved before installation. This 200 foot vessel is shown on a railcar beside Cessco's stress relieving furnace, one of the largest and most modern in Canada.

ROBERT MORSE
CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967
Net sales	$101,960,010	$95,574,412
Income from operations for the year, before the undernoted items	$ 5,283,234	$ 5,138,129
Interest (including $481,024 on long-term debt)	1,468,704	1,157,861
Depreciation	933,815	735,777
Minority interest	(9,313)	35,080
	2,393,206	1,928,718
Income before taxes and extraordinary items	2,890,028	3,209,411
Income taxes	1,522,325	1,396,328
Income before extraordinary items	1,367,703	1,813,083
Extraordinary items (Note 3)	699,884	619,611
Net income	$ 2,067,587	$ 2,432,694

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1968	1967
Balance at beginning of year	$ 8,475,928	$ 7,649,913
Net income	2,067,587	2,432,694
	10,543,515	10,082,607
Less: Underwriting commission on issue of shares	—	168,000
Premium on shares of subsidiaries, written off	169,659	250,831
Special tax on designated surplus of a subsidiary, wound up in a prior year	—	104,658
	169,659	523,489
	10,373,856	9,559,118
Dividends:		
Series A Preferred shares — $2.75 ($2.75 in 1967)	197,258	197,814
Series B Preferred shares — $2.75 ($1.71½ in 1967)	198,000	123,480
Class A shares — $1.00 ($0.97½ in 1967)	588,482	539,528
Class B shares — $0.90 ($0.87½ in 1967)	228,721	222,368
	1,212,461	1,083,190
Balance at end of year	$ 9,161,395	$ 8,475,928

(The accompanying Notes to Financial Statements are an integral part hereof.)

ROBERT MORSE
CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1968

ASSETS	1968	1967
CURRENT ASSETS:		
Cash	$ 702,073	$ 1,214,797
Accounts and notes receivable	22,851,269	20,324,161
Income taxes recoverable	445,026	—
Inventories (at the lower of cost or market):		
Finished products, manufactured or purchased	17,549,280	15,659,614
Work-in-process	3,906,822	3,488,948
Raw materials and supplies	4,272,952	2,997,308
	25,729,054	22,145,870
Prepaid expenses	482,512	360,060
	50,209,934	44,044,888
FIXED ASSETS, at cost:		
Land	752,221	659,513
Buildings	4,701,876	3,655,850
Plant and equipment	10,272,932	7,348,007
	15,727,029	11,663,370
Less: Accumulated depreciation	6,820,436	4,706,139
	8,906,593	6,957,231
PREMIUM ON SHARES OF SUBSIDIARIES		
(at cost, less amounts written off)	2,109,049	1,146,094
	$61,225,576	$52,148,213

Signed on behalf of the Board:
R. H. MORSE, III, Director
J. E. McQUILKIN, Director

LIABILITIES

			1968	1967
CURRENT LIABILITIES:				
Bank indebtedness (secured $1,270,179)			$12,620,344	$ 8,559,481
Notes payable			5,762,147	2,416,200
Trade and other accounts payable			12,610,898	11,957,338
Income and other taxes			1,503,096	697,171
Instalments on long-term debt (Note 4)			533,028	684,928
			33,029,513	24,315,118
DEFERRED INCOME TAXES			642,461	367,579
LONG-TERM DEBT (Note 4)			7,479,773	8,149,069
MINORITY INTEREST IN SUBSIDIARIES			90,577	108,662
SHAREHOLDERS' EQUITY				
CAPITAL STOCK (Note 5):				
Authorized —				
200,000 Preferred shares of the par value of $50 each, issuable in series				
4,000,000 Class A shares without nominal or par value				
2,000,000 Class B shares without nominal or par value				
Issued —	1968	1967		
5½% Cumulative Redeemable Convertible Preferred Shares				
Series A	71,730	71,730	3,586,500	3,586,500
Series B	72,000	72,000	3,600,000	3,600,000
Shares without nominal or par value				
Class A	592,232	587,232	3,635,357	3,545,357
Class B	254,135	254,135		
			10,821,857	10,731,857
RETAINED EARNINGS (Note 6)			9,161,395	8,475,928
			19,983,252	19,207,785
			$61,225,576	$52,148,213

(The accompanying Notes to Financial Statements are an integral part hereof.)

ROBERT MORSE
CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967
Funds provided —		
From operations:		
Net income before extraordinary items	$1,367,703	$1,813,083
Depreciation	933,815	735,777
Deferred income taxes	(83,526)	155,703
	2,217,992	2,704,563
Income from extraordinary items before deducting deferred income taxes — $358,408 ($211,876 in 1967) and book value of assets sold — $224,696 ($70,580 in 1967)	1,282,988	902,067
Issue of capital stock:		
Preferred shares	—	3,600,000
Shares without nominal or par value	90,000	1,144,031
Amounts received on conversion of Preferred shares	—	2,025
	90,000	4,746,056
Mortgage loan	—	1,619,790
	3,590,980	9,972,476
Funds applied —		
Additions to fixed assets	3,107,873	2,152,766
Dividends paid	1,212,461	1,083,190
Reduction of long-term debt	669,296	411,734
Excess of purchase price of shares of subsidiaries over net assets acquired	1,132,614	640,543
Underwriting commission on stock issues	—	168,000
Other	18,085	137,337
	6,140,329	4,593,570
Increase (decrease) in working capital	($2,549,349)	$5,378,906

(The accompanying Notes to Financial Statements are an integral part hereof.)

ROBERT MORSE
CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1968

1. BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of Robert Morse Corporation Limited and those of all of its subsidiary companies, including in 1968 those of Canadian Equipment Sales & Service Co. Ltd. from the effective date of its acquisition, June 1, 1968.

Accounts of subsidiaries expressed in currencies other than Canadian have been translated into Canadian dollars at rates of exchange current at December 31, 1968 except (a) fixed assets, long-term liabilities and depreciation provision, at rates prevailing at dates of acquisition or issue and (b) income and expenses (other than depreciation) at the average rates of exchange in effect during the year.

2. DIRECTORS' REMUNERATION:

Directors' fees and remuneration of salaried directors for the year amounted to $358,204.

3. EXTRAORDINARY ITEMS:

The extraordinary items consist of the following:	1968	1967
Gain on sales of the Pasadena, California property of Johnston Pump Company — less related deferred income taxes $358,408 ($211,876 in 1967)	$375,247	$314,231
Costs of relocation of the Johnston Pump Company plant at Glendora, California — less corresponding reduction in income taxes $59,737	—	(64,715)
Gain on sale of marine propulsion business (sold in 1967 at a price subject to adjustment in 1968 and 1969 on completion of contracts)	324,637	370,095
	$699,884	$619,611

4. LONG-TERM DEBT:

	1968	1967
Note* payable in semiannual instalments of US$91,386 to 1990 (effective interest rate 5.15%) . . .	$2,689,727	$2,759,374
Note* payable in semiannual instalments of US$126,183 to 1975 (effective interest rate 5.15%) . . .	1,605,577	1,797,214
6% Subordinated Debentures* US$1,500,000 due in 1971 . .	1,570,305	1,570,305
6½% Mortgage loan* payable quarterly to 1987	1,566,640	1,602,583
6% Mortgage loan* payable monthly to 1969	—	291,392
6% Subordinated Serial Notes* payable US$68,893 annually to 1972	218,121	290,838
Other term obligations, payable over periods varying from one to five years	362,431	522,291
	8,012,801	8,833,997
Less: Amounts due within one year, included with current liabilities	533,028	684,928
	$7,479,773	$8,149,069

*Debentures, loans and notes secured by collateral mortgages or trust deeds against fixed assets.

5. CAPITAL STOCK:

(a) Class A Shares:

The holders of Class A shares are entitled to a cumulative annual dividend of 70¢ per share and to participate equally in further amounts per share after payment of a non-cumulative dividend of 60¢ per share on Class B shares. The Class A shares are non-voting unless arrears of cumulative dividends aggregate $1.40 per share.

The Company may purchase for cancellation any or all of the outstanding Class A shares by invitation for tenders addressed to all holders or in the open market, after having notified vendors that the Company is the purchaser.

(b) Issue of Shares in 1968:

Pursuant to the provisions of the Company's Stock Purchase Plan, rights were granted in 1968 to two officers of a subsidiary to purchase an aggregate of 5,000 Class A shares at $18 per share. As authorized by the Plan, the Company provided to Trustees appointed under the Plan the sum of $90,000 to acquire the Class A shares necessary to satisfy the rights so granted and exercised. The 5,000 Class A shares so acquired were issued by the Company at $18 per share.

(c) Conversion Privileges and Warrant:

(i) The conversion privilege attached to the Series A Preferred shares entitles the holders thereof to convert each Preferred share at any time into 2½ Class A shares upon payment to the Company of $7.50 for each Preferred share converted.

(ii) The conversion privilege attached to the Series B Preferred shares entitles the holders thereof to convert each Preferred share at any time into 2 Class A shares upon payment to the Company of $2.00 for each Preferred share converted.

(iii) In 1962 the Company issued a Warrant, exercisable to December 31, 1971, for the purchase of up to 150,000 Class A shares of the Company at a price of US$10 per share. In 1968 the terms of this Warrant were amended so as to provide for an annual exercise of the rights under the Warrant, commencing in 1969 to the extent of 2% of the aggregate number of Class A and Class B shares outstanding at the previous year end. Accordingly, 16,927 Class A shares will be issued under the Warrant in 1969.

In consideration for the amendment of the Warrant, the Company has given its original holder a non-transferable guarantee of a net price, upon sale or transfer of any part of the Warrant, equal to not less than the difference between $20 Canadian and the Canadian equivalent of US$10 per share.

(d) Reservation of Shares:

Class A shares are reserved as follows:

For conversion privilege attached to Series A Preferred shares . .	179,325
For conversion privilege attached to Series B Preferred shares . .	144,000
For Warrant issued in 1962 exercisable at $10 (U.S. funds) per share.	150,000
For issue to Trustees of the Company's Stock Purchase Plan at a price to be determined at date of issue	5,000
For an option granted in 1968 to an officer of a subsidiary exercisable at $18 per share to February 15, 1973	3,000
Total Class A shares reserved	481,325

6. RETAINED EARNINGS:

The provisions attached to the Series A and Series B Preferred shares restrict to $3,514,892 the amount of retained earnings as at December 31, 1968 available for payment of dividends on Class A and Class B shares, for purchase for cancellation of Class A shares or for payment of tax on undistributed income under Section 105 of the Income Tax Act.

7. COMMITMENTS AND CONTINGENCIES:

(a) For conditional sales contracts discounted $5,388,000.

(b) For lease rentals aggregating $610,000 annually, the major portion being for periods extending from three to twenty years.

(c) The 1964, 1965 and 1966 income tax returns of two United States subsidiary companies have been examined by the Internal Revenue Service which has proposed certain additional assessments arising principally out of transactions between the subsidiaries and the parent company. These proposed assessments have been protested, and, in the opinion of management, the additional net tax liability, if any, will not be significant in amount.

(d) The Company is committed to purchase the 49% minority shareholders' interest in two subsidiaries, Mid-Western Compressor Supplies Ltd. and Mid-Western Machine Works Ltd., by 1972 at prices based upon earnings of the companies.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ROBERT MORSE CORPORATION LIMITED:

We have examined the consolidated balance sheet of Robert Morse Corporation Limited and subsidiary companies as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Robert Morse Corporation Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Montreal, February 20, 1969

ROBERT MORSE
CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

FIVE-YEAR REVIEW

	1968		1967		1966	1965	1964
OPERATING RESULTS							
Net Sales	**$101,960,000**		$95,574,000		$93,280,000	$80,359,000	$69,422,000
Income before Taxes	**2,890,000**		3,209,000		3,577,000	2,558,000	1,618,000
Income Taxes	**1,522,000**		1,396,000		1,633,000	1,011,000	336,000
Income before Extraordinary Items	**1,368,000**		1,813,000		1,944,000	1,547,000	1,282,000
Net Income	**2,068,000**		2,433,000		1,944,000	1,547,000	1,282,000
Preferred Share Dividends	**395,000**		321,000		124,000	—	—
Class A and B Share Dividends	**817,000**		762,000		643,000	531,000	624,000
Depreciation	**934,000**		736,000		620,000	602,000	596,000
Funds Provided from Operations	**2,218,000**		2,705,000		2,564,000	2,150,000	1,878,000
FINANCIAL POSITION							
Working Capital	**17,180,000**		19,730,000		14,351,000	11,724,000	6,098,000
Total Assets	**61,226,000**		52,148,000		48,990,000	41,005,000	36,511,000
Long-Term Debt	**7,480,000**		8,149,000		6,941,000	7,556,000	2,990,000
Shareholders' Equity	**19,983,000**		19,208,000		13,636,000	8,999,000	8,062,000
SHAREHOLDER INFORMATION							
Per Share							
Earnings — Class A	**1.18**(a)	**2.01**(b)	1.87(a)	2.64(b)	2.35	2.05	1.73
— Class B	**1.08**(a)	**1.91**(b)	1.77(a)	2.54(b)	2.25	1.95	1.63
Dividends — Preferred A		**2.75**		2.75	1.72½	—	—
— Preferred B		**2.75**		1.71½	—	—	—
— Class A		**1.00**		0.97½	0.85	0.72½	1.22½
— Class B		**0.90**		0.87½	0.75	0.62½	—
Shareholders' Equity — Class A and B		**15.12**		14.29	12.65	11.58	10.55
Average Shares Outstanding							
Class A		**589,000**		557,000	531,000	517,000	506,000
Class B		**254,000**		254,000	254,000	250,000	250,000

(a) excluding extraordinary items
(b) including extraordinary items

CESSCO (*continued*)

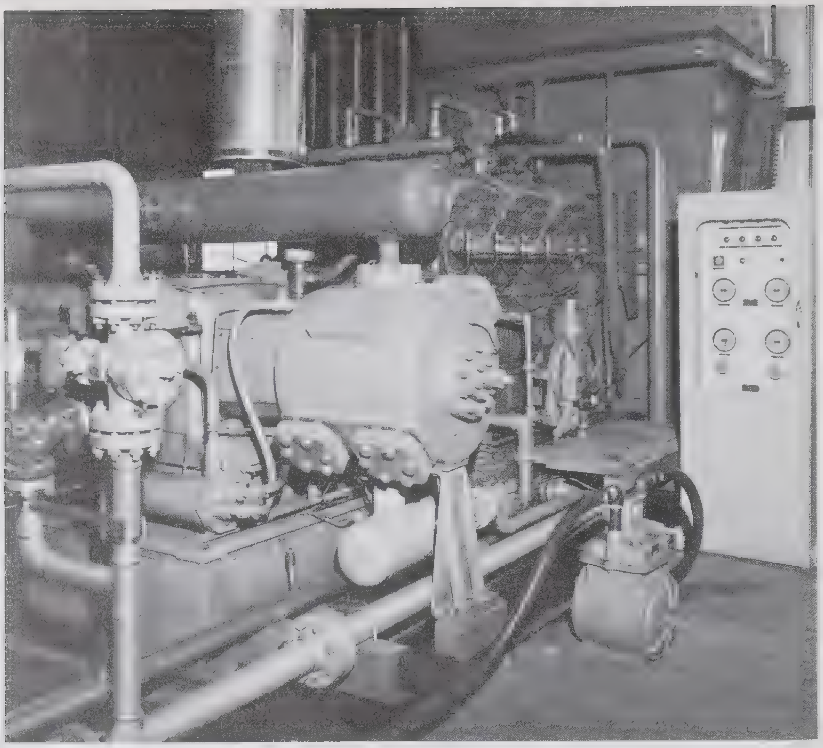
construction services for compressor stations, dry desiccant and gas dehydration units, packaged gas processing plants, separators and water flood and treatment plants. Several complete turn-key projects for major oil companies were designed and built by this Division in 1968. Largest of these was a gas processing plant constructed in northern British Columbia for Mobil Oil.

The Pipeline Equipment Division supplies specialized equipment for the construction, maintenance and operation of pipelines and serves pipeline contractors from Quebec to British Columbia, as well as Canadian pipeline contractors operating in the United States.

With the demand for gas in eastern Canada and the U.S. continuing to rise, investment in new gas plant construction is expected to reach $80 million in 1969, a twelve per cent increase over the previous year, and Cessco looks forward to another year of profitable growth.

Above is an aerial view of a gas conservation plant engineered and constructed by Cessco for processing of raw gas.

This close-up shows an internal air clamp supplied by Cessco being used to accurately align pipeline for welding.



This two-stage high speed compressor was installed by Mid-Western at a gas plant near Medicine Hat, Alberta.

MID-WESTERN COMPRESSOR SUPPLIES LIMITED

J. W. LEARY — President & General Manager

Mid-Western sells, services and rebuilds gas compressor units and related equipment for the oil, gas and petro-chemical industries. The Company also has extensive shop and on-site maintenance and repair service facilities for engines and compressors.

A highlight of 1968 was the integration of Mid-Western and Robert Morse Engineering Products sales personnel in the provinces of Alberta and British Columbia. This will provide the Company with a broader compressor and pump package and improved sales facilities in Western Canada.

Expansion and improvement of the sales and engineering force to keep pace with the increasing demands for technology are also expected to have a beneficial effect in the months ahead.

While Mid-Western's overall sales volume was lower than the previous year due largely to a decrease in capital equipment sales, the addition of a prominent line of gas booster compressors in 1968 is expected to bring about improved volume and results in 1969.

RUDEL INDUSTRIAL DIVISION

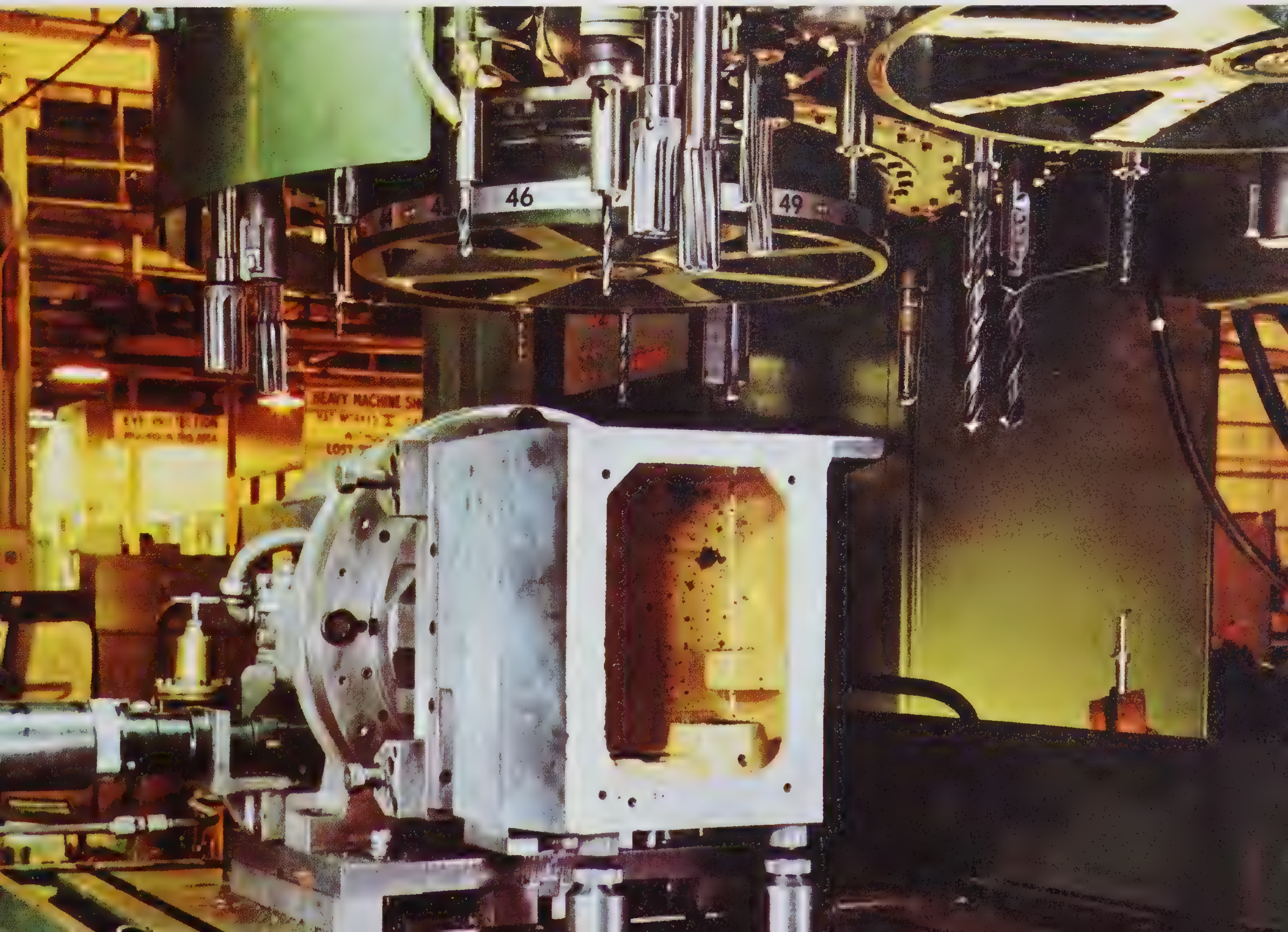
MEREDITH S. HAYES —
Vice President and General Manager

Total shipments by the Rudel Industrial Division in 1968 were at about the same level as those of the previous year. A continuing low level of capital expenditures through the first half of the year particularly affected sales of machine tools, but was largely offset by increased sales of small equipment and industrial supplies. Growth in this area was aided by the introduction of new lines in late 1967 and early 1968.

Despite the slow start in sales of capital equipment, a number of sizeable orders were received for numerically controlled machine tools. Major installations included a Variax Giddings & Lewis machine at the Douglas Aircraft plant in Malton, Ontario, and a horizontal boring, drilling and milling machine at Uniroyal's plant in Kitchener, Ontario. The division also participated in the development of a special boring machine for the Canadian National Railway diesel maintenance shops in Winnipeg, Manitoba.

Renewed activity in the automotive and aircraft industries in the last quarter, combined with an increasing need for machinery to improve Canadian productivity, both point to a favourable outlook for the Rudel Industrial Division in 1969.

This photograph shows the automatic tool changer on a numerically controlled Giddings & Lewis drilling, boring and milling machine installed at a tool manufacturing company. The tape controlled unit cuts production time to 3.2 hours from 20 hours on manual set-up machines.



FORESTRY EQUIPMENT AND MATERIALS HANDLING

JOSEPH A. MOREAU — General Manager

After a slow start in 1968, bookings in both segments of the Forestry Equipment & Materials Handling Division surged ahead in the latter part of the year, and the momentum is continuing into 1969.

Considerable strengthening of the Division was undertaken in 1968 in the areas of customer service, expansion of facilities and new product lines. The benefits of these development programs, carried out during the low activity period, are expected to accrue to the Division this year.

Four new branches were opened in 1968, at Kamloops and Cranbrook, B.C., Grande Prairie, Alberta, and Stellarton, N.S. A fifth, located at New Richmond, Quebec, will be in operation early in 1969.

Two new product lines were added to the Forestry Equipment Division aimed primarily at modernizing production methods of woodlands operations and tree harvesting. The Sicard Feller-Skidder, illustrated on the next page, is a new unit designed to fell trees up to sixteen inches in diameter, carry the felled trees and bunch them for skidding to central processing areas. This unit is not only

A Tree Farmer being housed in a portable Polydome building. Lightweight and easy to erect, these folding units offer many advantages for temporary housing and equipment shelters in remote areas.

Sketch shows the Sicard Feller-Skidder at work. This versatile unit cuts timber and places the trees on its back for removal to processing areas.

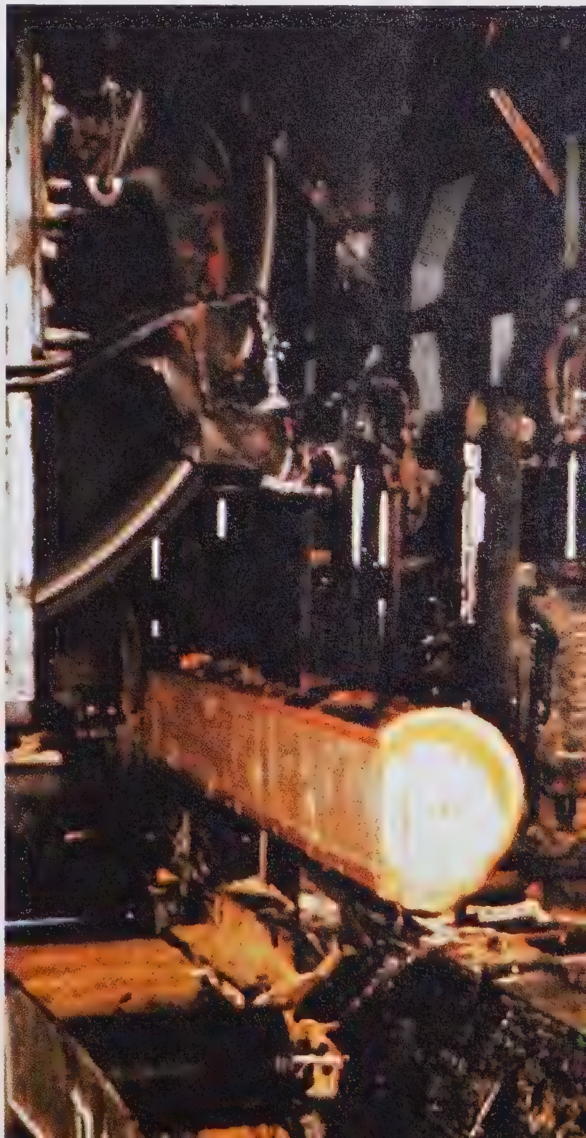
more productive and economical than manual methods, but also cuts trees at ground level resulting in a smaller stump and a higher wood yield.

An automatic tandem, non-hydraulic saw slasher was developed and introduced to answer the need for a unit capable of slashing varying lengths and combinations of logs in a single operation.

The Division has also entered the field of temporary and medium term housing with applications for woodlands and construction campsites, cottages, chalets and recreational pursuits generally. The Polydome portable structure, made of rigid covered polyurethane, features a light-weight corrugated design that folds for storage and shipping and can be erected by two men in less than two hours and dismantled for removal in one hour.

Galbraith & Sulley Limited

Galbraith & Sulley Limited continues to specialize in the manufacture of automated sawmill equipment under the trade name "Trojan", but in April, 1968, the marketing function of this subsidiary was integrated with the Forestry Equipment Division of Robert Morse Corporation. The combining of sales and marketing operations of both Companies provides a sound, progressive basis for supplying and servicing the lumber and logging industries across Canada.



Close up of the Trojan head rig chipper showing the new slab chipping process. A larger than normal slab is being removed to demonstrate how the chipper turns slabs immediately into chips without sawdust wastage.

The Division now has a total of 20 service stations and 110 servicemen across Canada. This Tree Farmer is receiving an overhaul at the modern service shop in Pointe Claire, Quebec.

The development of a new slab chipping process, manufactured under license, promises to be a successful addition to the sawmill equipment line and has excellent marketing potential in both Canada and the U.S.

Following a prolonged lumber industry strike in the early part of the year, orders for sawmill and related equipment took a strong upturn in the last two quarters with every indication of the trend continuing well on through 1969.

MATERIALS HANDLING

Strides were taken during the year in the development of new markets for materials handling equipment. A giant Drott Travelift straddle crane with a thirty foot span was sold for a key role in the Port of Montreal's first total containerization terminal built by Furness Withy. In British Columbia, a major agreement was reached with a new pulp and sawmill complex in the Columbia River Valley for a comprehensive package sale including lift trucks, scales, sawmill and other equipment.

ENGINEERING SALES

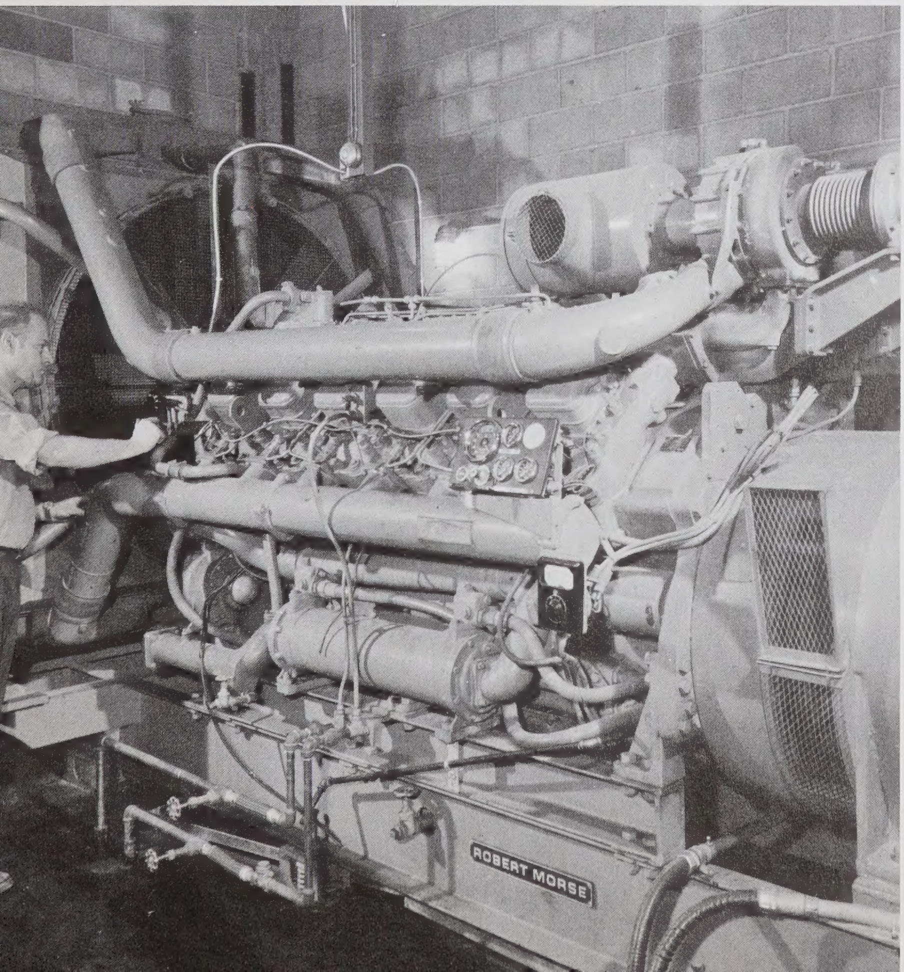
ROBERT T. TRIANT — General Manager

A leading supplier of diesel engines and standby power generating equipment, the Engineering Sales Division also represents the Johnston Pump Company in Canada, supplies several other complementing lines of pumps and sells underground packaged sewage stations. Associated with the Division, **Mackey Automation and Controls Limited,** designs and supplies control switchboards and automated control systems.

Increases in bookings for engines and generating sets during 1968 were largely offset by a decline in sales of pumps and other capital equipment so that the division's overall volume was at about the same level as the previous year. An upsurge of orders in the last quarter resulted in an excellent backlog situation at the end of the year and points to continued improvement in 1969.

Considerable strengthening of the division was undertaken during the past year mainly through the addition of three major pump lines, Aurora, Stothert & Pitt and Union. Combined with the Johnston pump line, the division now offers a very broad pump package to Canadian industry.

Major orders of interest during the year included supplying large Dorman diesel generating sets to provide reliable emergency power at the Olympics in Mexico, and the largest Johnston propeller pumps manufactured so far which were supplied to the New Brunswick Power Commission's Mactaquac Dam.



ROBERT MORSE APPLIANCES LIMITED

WILLIAM L. FOOTE —
Executive Vice President

Located in Edmonton, Alberta, the company distributes a wide range of household appliances in Alberta and Saskatchewan. Sales increases were reported in most product lines in 1968 and operations showed record profits for the year. Continued improvement in both volume and earnings are forecast for 1969.

Emergency standby power for the modern Westmount Square office and apartment complex is supplied by this 500 KW, 600V automatic diesel generating set. The unit will supply electricity for the entire complex within seconds of a power failure.

ORGANIZATION

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Arthur J. Burke, *Vice President, Engineering*
Joseph Giner, *Vice President, Sales*
John R. Szogyen, *Vice President, Manufacturing*
Russel J. Pederson, *Vice President, Finance*
John W. Aquadro, *Vice President, Systems Division*
John G. Fenton, *Senior Vice President*

CANADIAN SCALE DIVISION, Montreal, Quebec
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T. Alan Shore, *Managing Director*

HOWE RICHARDSON SCALE (AFRICA) (PROPRIETARY) LIMITED, Johannesburg, South Africa
George Oliver, *Managing Director*

RICHARDSON SCALE COMPANY (FRANCE) S.A., Paris, France
Alphonse Dingemans, *President and Managing Director*

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John A. Uhrig, *Managing Director*

JOHNSTON PUMP COMPANY, Glendora, California
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George C. Fee, *Vice President, Manufacturing*
Paul E. Barnhart, *Vice President, Controller and Secretary*

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Laurence Wenger, *Vice President*
Herbert Bear, *Vice President*
Don W. Rushton, *Vice President*

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MID-WESTERN MACHINE WORKS LTD., Calgary, Alberta
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Meredith S. Hayes, *Vice President and General Manager*

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Joseph A. Moreau, *General Manager*

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Jack E. Taylor, *President and General Manager*

ENGINEERING SALES DIVISION, Montreal, Quebec
Robert T. Triant, *General Manager*

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Patrick J. Mackey, *Vice President and General Manager*

ROBERT MORSE APPLIANCES LIMITED, Edmonton, Alberta
William L. Foote, *Executive Vice President*

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Allen L. Matthews, *Regional General Manager, Central*
Cyril H. Gibson, *Regional General Manager, Prairie*
George P. Clarke, *Regional General Manager, Pacific*

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Kamloops
Kitchener
London
Lunenburg
Montreal
New Richmond
Ottawa
Prince George
Quebec
Regina
Riverton
Rouyn
St. Catharines
Saint John
St. John's
Saskatoon
Sault Ste. Marie
Stellarton
Sydney
Toronto
Vancouver
Windsor
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Atlanta
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Birmingham
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Buffalo
Charlotte
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Cincinnati
Cleveland
Clifton
Dallas
Denver
Des Moines
Detroit
Fresno
Glendora
Goodland
Hartford
Houston
Idaho Falls
Indianapolis
Jackson
Jacksonville
Kansas City
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Milwaukee
Minneapolis
Moline
Newark
New Orleans
New York
Omaha
Philadelphia
Pittsburgh
Portland
Richmond
Roswell
St. Louis
San Francisco
Seattle
Spokane
Tampa
Trenton
West Palm Beach

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Vancouver, B.C.
Clifton, New Jersey
Minneapolis, Minnesota
Glendora, California
Southgate, California
Rutland, Vermont
Mexico City, Mexico
Nottingham, England
Paris, France
Broadmeadow, Australia
Johannesburg, South Africa

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Director, Canada Cement Co. Ltd., Montreal

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Vice President — General Counsel and Secretary, Montreal

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President, Johnston Pump Company, Glendora, California

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Vice President — Finance

John M. Rudel
Vice President

Robert Smillie
Senior Vice President — Corporate Development

Claude M. Tétrault
Vice President — General Counsel and Secretary

G. Samuel Carpenter
Comptroller and Assistant Secretary

EXECUTIVE OFFICES

1155 Dorchester Boulevard West,
Montreal 102, Canada

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The Royal Bank of Canada
First National City Bank
New Jersey Bank and Trust Company
Continental Illinois National Bank and Trust Company of Chicago

AUDITORS

Price Waterhouse & Co., Montreal

TRANSFER AGENTS

The Royal Trust Company
The First National Bank of Chicago

MANUFACTURERS OF:

Process control systems

Scales and weighing systems

Packaging equipment

Bulk handling equipment

Vertical irrigation and industrial pumps

Propeller and mixed flow pumps

Electric generating sets

Control panels

Sawmill machinery

Specialized equipment for the oil
and gas industry

CANADIAN DISTRIBUTORS OF:

Machine tools and metalworking machinery

Industrial equipment and supplies

Textile machinery

Materials handling equipment

Forestry equipment

Industrial diesel engines

Gas compressors

Portable housing units

ROBERT MORSE
CORPORATION LIMITED

A Canadian Company with subsidiaries in Canada, the U.S.A. and abroad.

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